

REPORT OF THE COMMISSION STAFF
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2002-341-S
SHOALS SEWER COMPANY

REPORT OF THE AUDIT DEPARTMENT

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SHOALS SEWER COMPANY

SYNOPSIS

Amount Requested

	\$
Per Staff	12,480*
Per Company	11,253

Operating Margin

Per Books	(24.46%)
As Adjusted	1.30%
After Proposed Increase	23.99%

*This amount was computed by the Utilities Department.

REPORT OF THE AUDIT DEPARTMENT
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SHOALS SEWER COMPANY

ANALYSIS

The Audit Department Staff has made a review of the Application of Shoals Sewer Company (hereinafter referred to as the Company) along with certain of its accounting records, relative to the Company's application to increase certain of its rates and charges under Docket No. 2002-341-S.

The Company is a wastewater utility operating in the State of South Carolina. The Company furnishes sewerage service to residential customers, i.e., 36 in Anchor Point and 68 in The Shoals Subdivision, for a total of 104 customers, all located in the County of Anderson.

The Company's principal place of business is located at 99 Harbor Drive, Anderson, South Carolina, 29625.

The Company has no employees, however, it does pay an outside operator \$500 per month to inspect and operate the system. The Company also pays to Shoals of Anderson, Inc., a management fee of \$300 per month and rent of \$100 per month..

The following is a summary of the Company's most recent rate requests before this Commission:

Date of Order	Effective Date	Docket Number	Order Number	Amount Requested	Amount Granted	Operating Margin
10/04/89	10/04/89	88-79-S	89-975	\$10,194	\$10,194	(53.86%)
09/20/96	10/01/96	95-1243-S	96-636	\$9,405	\$7,910	4.37%

In its present application, the Company utilizes a December 31, 2001 test year and is requesting additional sewer revenues totaling \$11,253. Staff calculated the requested increase to be \$12,480.

The operating margin, after accounting and pro forma adjustments, was computed by the Staff to be 1.30%. This operating margin increases to 23.99% after revenues were adjusted for the proposed increase of \$12,480.

The Audit Department Staff's exhibits relative to the Company's application are as follows:

EXHIBIT A: OPERATING EXPERIENCE AND OPERATING MARGIN

Detailed in this Staff exhibit are the Company's Operating Experience and Operating Margin for the test year ended December 31, 2001, the accounting and pro forma adjustments which are necessary to correct or normalize the Company's test year operations and the Company's normalized operations, both before and after the effect of the requested increase.

Staff verified the per book income of (\$1) to the Company's books and records. The per book figures reflect that the Company's Operating Revenues totaled \$29,437. These amounts were verified to the Company's books and records including bank deposits and cash receipts and disbursements records. The per book Operating Expenses totaled \$29,438 and were also verified to the Company's books and records through the use of cash receipts and disbursements records, cancelled checks and vendor invoices. The Company's per book income of (\$1) resulted in an Operating Margin of (24.46%).

Pro forma adjustments increased revenue and decreased expenses resulting in a Net Income For Return of \$3,170 and an Operating Margin of 1.30%. After the Staff adjusted operating income for the proposed increase, net income increased to \$13,262. The Operating Margin, after adjusting for the proposed increase is 23.99%.

EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PROFORMA

ADJUSTMENTS

This Staff exhibit details each accounting and pro forma adjustment necessary to normalize the Company's sewer operations and to reflect the proposed increase. For comparative purposes, Company and Staff adjustments are both presented in this exhibit.

EXHIBIT A-2: CUSTOMER GROWTH

The Staff's computation of the Company's customer growth factor during the test year is shown in this exhibit. The Company began the test year with 101 customers and ended the test year with 104 customers. The Staff calculated a customer growth factor of .97%.

EXHIBIT A-3: INCOME STATEMENT

In this exhibit, Staff has presented the Company's Income Statement as of the test year ended December 31, 2001. Staff verified the balances contained in this statement to the Company's books and records including cash receipts and disbursements, bank deposit slips and vendor invoices. The Staff verified all deposits for sewer revenue and tap fees that were recorded in the cash receipts and disbursement records and traced them to the Company's copy of the bank deposit slips. Staff also verified, through vendor invoices, 97% of Operation and Maintenance Expense reflected in the Company's test year filing.

Shoals Sewer Company
Operating Experience and Operating Margin
Test Year Ended December 31, 2001

Description	(1) Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) As Adjusted \$	(4) Proposed Increase \$	(5) After Proposed Increase \$
Operating Revenue:					
Service Revenue	29,353	1,847 (1)	31,200	12,480 (8)	43,680
Misc. Revenue	84	0	84	0	84
Total Operating Revenues	<u>29,437</u>	<u>1,847</u>	<u>31,284</u>	<u>12,480</u>	<u>43,764</u>
Operating and Maintenance Expenses	16,271	(1,000) (2)	15,271	0	15,271
General and Administrative Expenses	5,305	400 (3)	5,705	0	5,705
Depreciation & Amortization Expense	7,530	(707) (4)	6,823	0	6,823
Taxes Other Than Income	332	(77) (5)	255	102 (9)	357
Income Taxes	0	90 (6)	90	2,383 (10)	2,473
Total Operating Expenses	<u>29,438</u>	<u>(1,294)</u>	<u>28,144</u>	<u>2,485</u>	<u>30,629</u>
Net Operating Income	(1)	3,141	3,140	9,995	13,135
Customer Growth (Exh. A-2)	0	30 (7)	30	97 (11)	127
Net Income For Return	<u>(1)</u>	<u>3,171</u>	<u>3,170</u>	<u>10,092</u>	<u>13,262</u>
Operating Margin	<u>(24.46%)</u>		<u>1.30%</u>		<u>23.99%</u>
Interest Expense for Oper. Margin	<u>7,200</u>		<u>2,764</u>		<u>2,764</u>

Shoals Sewer Company
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2001

Revenues and Expenses	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Description	Service Revenue	O&M Expenses	G&A Expense	Depre. & Amort. Expense	Taxes Other Than Income	Income Taxes	Customer Growth
	\$	\$	\$	\$	\$	\$	\$
(1) Staff proposes to annualize service revenue based on year-end customers. (U)							
Per Staff	2,847						
Per Company	-0-						
(2) Staff proposes to remove tap fee revenue and related expenses from operating revenues and expenses. The Company was unable to identify expenses related to the installation of taps, therefore staff will remove expenses equal to the tap fee revenue on the assumption that tap expenses equal tap fee revenues. (A)							
Per Staff	(1,000)	(1,000)					
Per Company	-0-	-0-					
(3) Staff proposes to increase General and Administrative expense for omissions found during staff's audit. Expenses included rent of \$100 and administrative fees of \$300 for the month of July. (A)							
Per Staff							
Per Company			400				
			-0-				
(4) Staff proposes to annualize depreciation expense based on year end plant -in-service and depreciation rates recommended by the Utilities Department. (A)&(U)							
Per Staff				(707)			
Per Company				-0-			

Shoals Sewer Company
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2001

Revenues and Expenses	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Description	Service Revenue	O&M Expenses	G&A Expense	Depre. & Amort. Expense	Taxes Other Than Income	Income Taxes	Customer Growth
	\$	\$	\$	\$	\$	\$	\$
<p>(5) Staff proposes to adjust gross receipts tax using the current gross receipts tax rate of .008141931. The gross receipts tax rate used during the test year was .011206749. (A)</p>							
Per Staff					(77)		
Per Company					-0-		
<p>(6) Staff proposes to adjust income taxes based on taxable income "As Adjusted" including annualized interest. (A)</p>							
Per Staff						90	
Per Company						-0-	
<p>(7) Staff proposes to adjust customer growth for the effects of accounting and pro forma adjustments. (A)</p>							
Per Staff							30
Per Company							-0-
Total Accounting and Pro Forma Adjustments - Revenues and Expenses - Per Staff	1,847	(1,000)	400	(707)	(77)	90	30

(A) - Adjustment is the responsibility of the Audit Department witness.
(U) - Adjustment is the responsibility of the Utilities Department witness.

Shoals Sewer Company
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended December 31, 2001

Proposed Increase Description	(8) Service Revenue \$	(9) Taxes Other Than Income \$	(10) Income Taxes \$	(11) Customer Growth \$
(8) The Staff and Company propose to record the effect of the proposed increase in revenue. (U)				
Per Staff	12,480			
Per Company	11,253			
(9) Staff proposes to adjust gross receipts tax for the effect of the proposed increase. (A)				
Per Staff		102		
Per Company		-0-		
(10) Staff proposes to adjust income taxes for the effect of the proposed increase. (A)				
Per Staff			2,383	
Per Company			-0-	
(11) Staff proposes to adjust customer growth for the effect of the proposed increase. (A)				
Per Staff				97
Per Company				-0-
Total Accounting and Pro Forma Adjustments - Proposed Increase - Per Staff	12,480	102	2,383	97

Shoals Sewer Company
Customer Growth Computation
Test Year Ended December 31, 2001

Description	(1) Per Books	(2) As Adjusted	(3) After Increase
	\$	\$	\$
Net Operating Income	(1)	3,140	13,135
Growth Factor	0.97%	0.97%	0.97%
Customer Growth	-0-	30	127

NOTE: Staff does not recognize negative customer growth

Number of Customers:

Beginning	101
Ending	104
Average	103

$$\text{Growth Factor} = \frac{\text{Ending Customers} - \text{Average Customers}}{\text{Average Customers}}$$

$$\text{Growth Factor} = \frac{104 - 103}{103}$$

$$\text{Growth Factor} = \underline{\underline{0.97\%}}$$

Shoals Sewer Company
Income Statement
Test Year Ended December 31, 2001

<u>Description</u>	<u>\$</u>
Sewer Fees	28,437
Tap Fees	1,000
Total Revenues	<u>29,437</u>
Office Supplies	246
Postage	139
Bank Charges	120
Office Rent	1,200
Administration Fee	3,600
Permit Fee - DHEC	400
Inspection & Operation	6,000
Lab	1,038
Chemicals	470
Electricity	4,066
Water	93
Sludge Removal	1,050
Equipment Repairs & Maint.	3,154
Interest on Loans	7,200
Depreciation	7,530
Other Taxes	332
Total Expenses	<u>36,638</u>
Net Income/Loss	<u><u>(7,201)</u></u>

**REPORT OF THE
UTILITIES DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

SHOALS SEWER COMPANY

DOCKET NO. 2002-341-S

SHOALS SEWER COMPANY

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**UTILITIES DEPARTMENT
EXHIBIT NO. 1**

Shoals Sewer Company is operating under rates and charges approved by Commission Order No. 96-636, issued October 1, 1996, in Docket No. 95-1243-S.

SUMMARY OF PRESENT AND PROPOSED RATES

<u>CUSTOMER</u> <u>Res & Com</u>	<u>PRESENT</u> <u>RATE</u>	<u>PROPOSED</u> <u>RATE</u>	<u>AMOUNT OF</u> <u>INCREASE</u>	<u>PERCENT</u> <u>INCREASE</u>
Residential (flat rate)	\$ 25.00	\$ 35.00	\$ 10.00	40%
Anchor Point	\$900.00	\$1260.00	\$360.00	40%
Late Fee Notice	\$ 5.00	\$ 10.00	\$ 5.00	100%
Tap Fee	\$500.00	\$ 500.00	0	0

**UTILITIES DEPARTMENT
EXHIBIT NO. 2**

EFFECT OF PROPOSED INCREASE ON OPERATING REVENUE

Utilities Department Exhibit No. 2 shows the effect of the proposed increase on the Company's operating revenue. The requested rates will produce \$12,480 in additional revenue which is an increase of 40.0%.

SOURCE OF REVENUE	PER BOOKS \$	PRO FORMA \$	AFTER ADJUSTMENT \$	INCREASE \$	AFTER INCREASE \$	PERCENT INCREASE
Sewer Service	28,353	2,847 (1)	31,200	12,480 (2)	43,680	40.0
Tap Fees	1,000	(1,000)	0	0	0	0
Misc. Rev.	84	0	84	0	84	-
Total rev.	29,437	1,847	31,284	12,480	43,764	39.9

(1) To annualize revenues.

(2) To add to the adjusted revenues the proposed increase for the test year.

**UTILITIES DEPARTMENT
EXHIBIT NO. 3**

EFFECT OF PROPOSED INCREASE ON CUSTOMER'S MONTHLY BILL

Utilities Department Exhibit No. 3 shows the effect of the proposed rates and charges on the residential and commercial customer's monthly sewer bill. The requested increase in a residential sewer bill will be \$10.00 or 40.0%. The requested increase in the Anchor Point Condominium sewer bill will be \$360.00 or 40.0%.

**EFFECT OF PROPOSED INCREASE ON MONTHLY SEWER BILL
RESIDENTIAL AND COMMERCIAL**

CUSTOMER Flat rate /month	PRESENT BILL	PROPOSED BILL	AMOUNT OF INCREASE	PERCENT INCREASE
Residential	\$ 25.00	\$ 35.00	\$ 10.00	40.0%
Anchor Point	\$900.00	\$1260.00	\$360.00	40.0%

UTILITIES DEPARTMENT EXHIBIT NO. 4

UTILITIES DEPARTMENT REVIEW OF SERVICE PROVIDED BY THE COMPANY

ON JANUARY 29, 2003, PERSONNEL FROM THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA STAFF PERFORMED AN INSPECTION OF THE WASTEWATER TREATMENT PLANT. THE COMPANY PROVIDES SERVICE TO 36 RESIDENTS IN THE ANCHOR POINT HORIZONTAL PROPERTY REGIME (HOA) AND 68 CUSTOMERS IN THE SHOALS SUBDIVISION IN ANDERSON COUNTY SOUTH CAROLINA. THE RECORDS OF THE CONSUMER SERVICES DEPARTMENT DO NOT REFLECT ANY COMPLAINTS ON THE COMPANY.

SINCE THE NOTICE OF FILING WAS MAILED TO THE COMPANY'S CUSTOMERS, STAFF HAS RECEIVED 3 PROTESTANT LETTERS AND INTERVENTION BY ONE CUSTOMER.

THE COMPANY PROVIDES ADEQUATE SERVICE TO ITS CUSTOMERS.

THE FOLLOWING PAGE IS THE INSPECTION REPORT OF THE TREATMENT PLANT. THE SYSTEM OVERALL IS IN SATISFACTORY CONDITION. IT APPEARS THAT THE AREA IN AND AROUND THE OUTSIDE OF THE TREATMENT PLANT HAD JUST RECENTLY BEEN CLEARED OF SMALL TREES AND BUSHES.

THE COMPANY RECEIVED AN OVERALL RATING OF SATISFACTORY ON THE WASTEWATER TREATMENT FACILITY OPERATION AND MAINTENANCE EVALUATION REPORT DATED AUGUST 12, 2002 FROM THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (SCDHEC).

SEWERAGE SYSTEM INSPECTION